deferred compensation for such award shall be based on the market value of the asset at the time the award is made. If a market value is not available, the fair value of the asset shall be used.

(5) If the terms of an award, made in the form of an asset other than cash, require that the employee perform future service in order to receive the asset, the cost of the deferred compensation shall be appropriately assigned to the periods of current and future service based on the facts and circumstances of the award. The cost to be assigned shall be the value of the asset at the time of award as prescribed in 9904.415–50(e)(4).

(6) In computing the assignable cost for a cost accounting period, any forfeitures which reduce the employer's obligation for payment of deferred compensation shall be a reduction of contract costs in the period in which the forfeiture occurred. The amount of the reduction shall be equal to the amount of the award that was assigned to a prior period, plus interest compounded annually, using the Treasury rate (see 9904.415–50(d)(5)) that was in effect at the time the cost was assigned. If the recipient of the award of stock options voluntarily fails to exercise such options, such failure shall not constitute a forfeiture under provisions of this Standard.

(7) Stock option awards or any other form of stock purchase plans containing all of the following characteristics shall be considered noncompensatory and not covered by this Standard:

(i) Substantially all full-time employees meeting limited employment qualifications may participate.

(ii) Stock is offered equally to eligible employees or based on a uniform percentage of salary or wages.

(iii) An option or a purchase right must be exercisable within a reasonable period.

(iv) The discount from the market price of the stock is no greater than would be reasonable in an offer of stock to stockholders or others.

9904.415–60 Illustrations.

(a) Contractor A has a deferred compensation plan in which all cash awards are increased each year by an interest factor equivalent to the long-term borrowing rate of the contractor prevailing during each such year. The interest factor based on a variable long-term borrowing rate meets the criteria of 9904.415–50(d)(2). Consequently, the cost of deferred compensation for Contractor A shall be measured by the present value of the future benefits and shall be assigned to the cost accounting period in which the contractor initially incurs an obligation to compensate the employee. If the long-term borrowing rate for Contractor A was 9 percent at the close of the period to which the cost of deferred compensation was assignable, then that rate should be used to calculate the future benefit. Any adjustment in the cost of deferred compensation which results from a material change in the 9 percent rate in future applicable periods shall be made in each such future period or periods (see 9904.415–50(d)(2)).

(b) Contractor B made a deferred compensation award of $10,000 to an employee on December 31, 1976, for services performed in 1976 to be paid in equal annual payments of $2,000 starting at December 31, 1981. The terms of the award do not provide for an interest factor to be included in the payment; consequently, according to provisions of 9904.415–50(d)(1), interest may not be included in the computation of the future benefits. The assignable cost for 1976 is computed as follows, assuming that the interest rate determined by the Secretary of the Treasury (pursuant to Public Law 92–41), 85 Stat. 97 at the time of the award is 8 percent and the conditions set forth in 9904.415–50(a) are met.

Year	Amount of future payment × discount rate 8-percent present value factor=present value
1981	$2,000×0.6805=$1,361
1982	2,000×.6301=1,260
1983	2,000×.5834=1,167
1984	2,000×.5402=1,080
1985	2,000×.5002=1,000
Assignable cost for 1976	5,868

(c) Contractor C awarded stock options for 1,000 shares of the contractor to key employees on December 31, 1976, under a deferred compensation plan requiring 2 years of additional service before the awards can be exercised. The facts and circumstances of the awards indicate that the deferred compensation applies only to the periods of future service. The market price of the stock was $26 per share, the option price was $22, and the interest rate established by the Secretary of the Treasury in effect at the time of award was 8 percent.

(1) In accordance with 9904.415–50(e)(2), the cost of the stock options is the amount by which the current value of the stock exceeds the option price multiplied by the number of shares awarded on the measurement date. Thus, the total cost of the stock options is 1,000 shares multiplied by the difference of the option price and the market price ($26–22) or $4,000.

(2) Under provisions of 9904.415–50(e)(3), the cost for stock options is assigned to each future cost accounting period in which employee service is required and is computed as follows:

	Assignable cost[1]
Year of required service:	
1977	$2,000
1978	2,000
Total amount of award	4,000

[1] Note that this illustration assumes that the facts and circumstances of the award indicate that the award relates equally to each period of future service. Thus, the assignable cost was allocated on a pro-rata basis.

(d)(1) Contractor D has a deferred compensation plan that specifies that an employee receiving a cash award must remain with the company for 3 calendar years after the award in order to qualify and receive the award and the facts and circumstances indicate that the deferred compensation applies only to the periods of future service. In accordance with 9904.415–50(d)(4), the cost of deferred compensation is assignable to the periods of future service. Thus, the amount of cost of deferred compensation to be assigned by Contractor D for each of the 3 years shall be the present value of the future benefits of the deferred compensation award calculated as of the end of each such period to which such cost is assigned.

(2) Under this plan, Contractor D made an award to an employee of $3,000 to be paid at the end of the third year. The assignable cost for each of the 3 years is computed as follows:

Year[1]	Amount of future payment		Present value factor[2] treasury rate[3]		Assignable cost for each year
1	$1,000	×	0.8573 (8 pct for 2 yr)	=	$857.30
2	1,000	×	0.9302 (7.5 pct for 1 yr)	=	930.20
3	1,000	×	1.000 (8 pct for 0 yr)	=	1,000.00

[1] Note that in accordance with the facts and circumstances of the award no deferred compensation is assignable to the period in which the award is made and that the award relates equally to each period of future service.

[2] Note that since the costs are measured at the end of each year of required service, the present value factors are based on the number of years from the year of assignment to the date of payment.

[3] Note that the prevailing Treasury rate changed from year 1 to year 2.

(e)(1) Contractor E has a deferred compensation plan that specifies that an employee receiving a cash award must remain with the company for 2 calendar years after the award in order to qualify and receive the award. Contractor E made an award of $6,000 at the end of 1976 to an employee to be paid at the end of 1978. However, the employee voluntarily terminated his employment before the end of 1977. The facts and circumstances of the award indicate that $2,000 of the award represents compensation for services rendered in the period of award (1976). The remaining portion of the award represents compensation for services to be rendered in future periods. The assignable cost for 1976, which was the only period to which costs were assigned before termination, was the present value of $2,000, the amount of the award attributable to the services of that period. Thus, the cost assigned for 1976 was:

Amount of future payment×Discount rate present value factor for 2 yr at 8 pct=Assignable cost

$2,000×0.8573=$1,714.60

(2) According to provisions of 9904.415–50(d)(7), the amount of the forfeiture shall be the amount of the cost that was assigned to a prior period, plus interest compounded annually, from the year the cost was assigned to the year of forfeiture, using the same Treasury rate (see 9904.415–50(d)(5)) that was used as the discount rate at the time the cost was assigned. The IRS rate in effect at the date of award was 8 percent.

(3) The amount of the forfeiture is computed as follows:

Assignable cost×Discount rate future value for 1 yr at 8 pct=Forfeiture

$1,714.60×1.08=$1,851.77

9904.415–61 Interpretation. [Reserved]

9904.415–62 Exemption.

None for this Standard.

9904.415–63 Effective date.

This Standard is effective as of April 17, 1992. Contractors with prior CAS-covered contracts with full coverage shall continue this Standard's applicability upon receipt of a contract to which this Standard is applicable. For contractors with no previous contracts subject to this Standard, this Standard shall be applied beginning with the contractor's next full fiscal year beginning after the receipt of a contract to which this Standard is applicable.

9904.416 Accounting for insurance costs.

9904.416–10 [Reserved]

9904.416–20 Purpose.

The purpose of this standard is to provide criteria for the measurement of insurance costs, the assignment of such costs to cost accounting periods, and their allocation to cost objectives. The application of these criteria should increase the probability that insurance costs are allocated to cost objectives in a uniform and consistent manner.

9904.416–30 Definitions.

(a) The following are definitions of terms which are prominent in this Standard. Other terms defined elsewhere in this part 99 shall have the meanings ascribed to them in those definitions unless paragraph (b) of this subsection, requires otherwise.

(1) *Actual cash value* means the cost of replacing damaged property with other property of like kind and quality in the physical condition of the property immediately prior to the damage.

(2) *Insurance administration expenses* means the contractor's costs of administering an insurance program, e.g., the costs of operating an insurance or risk-management department, processing claims, actuarial fees, and service fee paid to insurance companies, trustees, or technical consultants.

(3) *Projected average loss* means the estimated long-term average loss per period for periods of comparable exposure to risk of loss.

(4) *Self-insurance* means the assumption or retention of the risk or loss by the contractor, whether voluntarily or involuntarily. Self-insurance includes the deductible portion of purchased insurance.

(5) *Self-insurance charge* means a cost which represents the projected average loss under a self-insurance plan.

(b) The following modifications of terms defined elsewhere in this chapter 99 are applicable to this Standard: None.

9904.416–40 Fundamental requirement.

(a) The amount of insurance cost to be assigned to a cost accounting period is the projected average loss for that period plus insurance administration expenses in that period.

(b) The allocation of insurance costs to cost objectives shall be based on the beneficial or casual relationship between the insurance costs and the benefiting or causing cost objectives.

9904.416–50 Techniques for application.

(a) *Measurement of projected average loss*. (1) For exposure to risk of loss